

policy regarding any amounts recovered after redemption or termination.

(2) The title of any class of securities with an optional redemption or termination feature that may be exercised when 25% or more of the original principal balance of the pool assets is still outstanding must include the word “callable,” *provided, however*, that in the case of a master trust, a title of a class of securities must include the word “callable” when an optional redemption or termination feature may be exercised when 25% or more of the original principal balance of the particular series in which the class was issued is still outstanding.

(g) *Prepayment, maturity and yield considerations.* (1) Describe any models, including the related material assumptions and limitations, used as a means to identify cash flow patterns with respect to the pool assets.

(2) Describe to the extent material the degree to which each class of securities is sensitive to changes in the rate of payment on the pool assets (e.g., prepayment or interest rate sensitivity), and describe the consequences of such changing rate of payment. Provide statistical information of such effects, such as the effect of prepayments on yield and weighted average life.

(3) Describe any special allocations of prepayment risks among the classes of securities, and whether any class protects other classes from the effects of the uncertain timing of cash flow.

§ 229.1114 (Item 1114) Credit enhancement and other support, except for certain derivatives instruments.

(a) *Descriptive information.* To the extent material, describe the following, including a clear discussion of the manner in which each potential item is designed to affect or ensure timely payment of the asset-backed securities:

(1) Any external credit enhancement designed to ensure that the asset-backed securities or pool assets will pay in accordance with their terms, such as bond insurance, letters of credit or guarantees.

(2) Any mechanisms to ensure that payments on the asset-backed securities are timely, such as liquidity facilities, lending facilities, guaranteed in-

vestment contracts and minimum principal payment agreements.

(3) Any derivatives whose primary purpose is to provide credit enhancement related to pool assets or the asset-backed securities.

(4) Any internal credit enhancement as a result of the structure of the transaction that increases the likelihood that payments will be made on one or more classes of the asset-backed securities in accordance with their terms, such as subordination provisions, overcollateralization, reserve accounts, cash collateral accounts or spread accounts.

Instructions to Item 1114(a): 1. Include a description of the material terms of any enhancement or support described, including any limits on the timing or amount of the enhancement or support or any conditions that must be met before the enhancement or support can be accessed. The enhancement or support agreement is to be filed as an exhibit. Also describe any provisions regarding the substitution of enhancement or support.

2. This Item should not be construed as allowing anything other than an asset-backed security whose payment is based primarily by reference to the performance of the receivables or other financial assets in the asset pool.

(b) *Information regarding significant enhancement providers—(1) Descriptive information.* If an entity or group of affiliated entities providing enhancement or other support described in paragraph (a) of this section is liable or contingently liable to provide payments representing 10% or more of the cash flow supporting any offered class of asset-backed securities, provide the following information:

(i) The name of such enhancement provider.

(ii) The organizational form of enhancement provider.

(iii) The general character of the business of such enhancement provider.

(2) *Financial information.* (i) If any entity or group of affiliated entities providing enhancement or other support described in paragraph (a) of this section is liable or contingently liable to provide payments representing 10% or more, but less than 20%, of the cash flow supporting any offered class of the

Securities and Exchange Commission

§229.1115

asset-backed securities, provide financial data required by Item 301 of Regulation S-K (§229.301) for each such entity or group of affiliated entities.

(ii) If any entity or group of affiliated entities providing enhancement or other support described in paragraph (a) of this section is liable or contingently liable to provide payments representing 20% or more of the cash flow supporting any offered class of the asset-backed securities, provide financial statements meeting the requirements of Regulation S-X (§§210.1-01 through 210.12-29 of this chapter), except §210.3-05 of this chapter and Article 11 of Regulation S-X (§§210.11-01 through 210.11-03 of this chapter), of such entity or group of affiliated entities. Financial statements of such enhancement provider and its subsidiaries consolidated (as required by §240.14a-3(b) of this chapter) shall be filed under this item.

Instructions to Item 1114: 1. The requirements in paragraph (b) of this section apply to all providers of external credit enhancement or other support, other than those described in Item 1115 of this Regulation AB. Enhancement may support payment on the pool assets or payments on the asset-backed securities themselves.

2. No information need be provided pursuant to paragraph (b)(2) of this section if the obligations of the enhancement provider are backed by the full faith and credit of the United States.

3. No information need be provided pursuant to paragraph (b)(2) of this section if the obligations of the enhancement provider are backed by the full faith and credit of a foreign government (as defined in §240.3b-4(a) of this chapter) if the enhancement provider has an investment grade credit rating, as the term investment grade is used in Item I.B.2 of Form S-3 (§239.13 of this chapter). If the enhancement provider does not have an investment grade credit rating, information required by paragraph (5) of Schedule B of the Securities Act (15 U.S.C. 77aa) regarding the foreign government may be incorporated by reference from a Commission filing in lieu of providing the financial information required pursuant to paragraph (b)(2) of this section.

4. If the pool assets are student loans originated under the Federal Family Education Loan Program of the Higher Education Act of 1965 (20 U.S.C. 1001 *et seq.*) and the enhancement provider for the pool assets is a guarantee agency as defined under the Higher Education Act, then the following information may be provided in lieu of providing

financial information required pursuant to paragraph (b)(2) of this section:

a. The number of pool assets and aggregate outstanding principal balance of pool assets guaranteed by the guarantee agency (both by number and percentage of the asset pool as of the cut-off date or other applicable date).

b. Disclosure of the following with respect to the guarantee agency, as applicable, including a brief description regarding the method of calculation, covering at least five federal fiscal years:

i. Aggregate principal amount of all student loans guaranteed.

ii. Reserve ratio.

iii. Recovery rate.

iv. Loss rate.

v. Claims rate.

5. If the enhancement provider is a foreign business (as defined §210.1-02 of this chapter):

a. Paragraph (b)(2)(i) of this section may be complied with by providing the information required by Item 3.A. of Form 20-F (§249.220f of this chapter). If a reconciliation to U.S. generally accepted accounting principles called for by Instruction 2. to Item 3.A. of Form 20-F is unavailable or not obtainable without unreasonable cost or expense, at a minimum provide a narrative description of all material variations in accounting principles, practices and methods used in preparing the non-U.S. GAAP financial statements used as a basis for the selected financial data from those accepted in the U.S.

b. Paragraph (b)(2)(ii) of this section may be complied with by providing financial statements meeting the requirements of Item 17 of Form 20-F for the periods specified by Item 8.A. of Form 20-F.

§229.1115 (Item 1115) Certain derivatives instruments.

This item relates to derivative instruments, such as interest rate and currency swap agreements, that are used to alter the payment characteristics of the cashflows from the issuing entity and whose primary purpose is not to provide credit enhancement related to the pool assets or the asset-backed securities. For purposes of this section, the “significance estimate” of the derivative instrument is to be determined based on a reasonable good-faith estimate of maximum probable exposure, made in substantially the same manner as that used in the sponsor’s internal risk management process in respect of similar instruments. The